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SUBJECT: Argentina Economic and Financial Review, November 13-19, 2009

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¶1. (U) Provided below is Embassy Buenos Aires' Economic and Financial Review covering the period November 13-19, 2009. The unclassified email version of this report includes tables and charts tracking Argentine economic developments. Contact Econ OMS Megan Walton at WaltonM@state.gov to be included on the email distribution list. This document is sensitive but unclassified. It should not be disseminated outside of USG channels or in any public forum without the written concurrence of the originator. It should not be posted on the internet.

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Congress approves the suspension of the "Bolt Law" (Ley Cerrojo), a first and necessary step towards presenting a formal offer to holdouts

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¶2. (SBU) On November 18, the Senate approved the bill to suspend the so-called "Bolt Law" -- Ley Cerrojo -- (45 positive vs. 10 negative votes), a key legal domestic prerequisite before presenting a formal offer to holdouts. The Chamber of Deputies had already approved the bill November 4. The Bolt law, originally approved in 2005, prevented the GoA from making additional offers to holdouts who did not participate in the 2005 debt restructuring without prior authorization from the Congress. For additional background, see October 29 Argentina Economic and Financial Report. Reportedly, the GoA is working as quickly as possible to get the necessary regulatory approval for the offer that will enable it to launch the new offer before December 15. Most analysts believe that an offer after that date will have to wait until January 2010.

Meanwhile, local newspapers report and speculate on details of the GoA planned offer. According to some accounts, the GoA will offer retail investors a three-year bond for past due interest (PDI) from 2004 to 2009, while institutional investors will receive a seven-year bond. Also, unlike institutional investors, retail investors will not have to pay 10 cents for each dollar of defaulted debt they present for the bond exchange. Reportedly, the GoA has already received participation commitments for about $10 billion from institutional investors (about 50% of the remaining holdout debt).

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Brazilian and Argentine Trade Summit: Lots of Smiles, Little Progress

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¶3. (SBU) Argentine President Cristina Fern????ndez de Kirchner (CFK) and Brazilian President Luiz Ignacio Lula da Silva (Lula) held a Summit meeting in the Brazilian capital on November 18 amid simmering trade tensions where the two agreed only to live up to existing obligations. Brazilian industrialists and trade officials have been fuming for some months over the delayed issuance of non-automatic import licenses for certain economic sectors. As Argentina's largest trading partner, Brazil has taken an especially hard hit from what many observers see as an officially sanctioned back-door restriction on imports. Tensions mounted toward the end of October when the Brazilian government retaliated, after enduring a full year of non-automatic licenses on products such as textiles, and adopted non-automatic licenses on the importation of several important Argentine products, including olive oil, wine, and flour. This created tensions on the border where Brazil-bound trucks from Argentina with perishable cargoes were halted by Brazilian customs officials awaiting issuance of the non-automatic licenses. Argentine Minister of Economy Amado Boudou and Minister of Industry Debora Giorgi responded that Argentina would "not tolerate" the restrictive measures taken by Brazil against perishable Argentine merchandise in transit. Giorgi also denied official Brazilian

statements that it took Argentina 150 days to issue non-automatic licenses. On November 11 Brazil escalated the conflict when it retaliated in the crucial automobile sector. According to news reports, the Brazilian government required non-automatic licenses for some automobile parts from Argentina. The automobile sector is especially sensitive because it is the largest area of trade between the two countries.

In the November 18 Summit meeting, the Argentine press reported that Lula exhorted CFK to lift the protectionist measures. He said that "protectionism is not a solution. It creates distortions that are difficult to reverse." CFK responded that Lula must keep in mind that in the trade relationship between their countries there is a "major partner and a minor partner" and that it is necessary to "look at the big picture." At the last moment, the two leaders agreed to a statement where Argentina promised to comply with existing WTO requirements to issue non-automatic licenses within 60 days. Brazil promised to provide warnings before denying entry to Argentine products, but Lula reportedly refused to agree to a 21-day advance notice. The two leaders also agreed to more frequent ministerial-level meetings (every 45 days) to review bilateral trade issues.

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Apache receives approval to sell gas at higher than normal rates

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¶4. (SBU) Apache Corporation, a U.S. energy company, has again received GoA approval to sell natural gas at higher-than-normal rates under the Argentine government's "Gas Plus" program. Under the plan, Apache will start selling 10 million cubic feet per day of natural gas from new sources of production to Cammessa, Argentina's government-owned wholesale power-market regulator. The approval is Apache's second under Argentina's Gas Plus program, which aims to give companies a financial incentive to explore for gas by allowing them to charge higher rates for gas from new

discoveries. So far, Apache is the only company with Gas Plus projects approved for gas marketing, and Apache reports in a statement that it has three more projects pending approval.

Starting in January, Apache will sell the gas for $4.10 per million British thermal units for one year, after which the price will rise to $5. The gas will come from the Guanaco and Ranquil-Co fields in Neuquen province. Apache previously received approval to sell 50 million cubic feet per day of gas from two fields in the provinces of Neuquen and Rio Negro. That gas will sell for $5 per million BTU beginning in 2011. The prices are significantly more than what Apache and other companies have been getting per million BTU for other projects; Apache produced 184 million cubic meters of gas per day 3Q09 in Argentina at an average price of $1.89 per thousand cubic feet, the company said. The new prices for Apache are still well below the roughly $6 Argentina pays to import natural gas from Bolivia or what it pays to import liquefied natural gas from Trinidad and Tobago.

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INDEC announced a 0.8% m-o-m CPI headline, higher than expected and building analysts' hopes of a gradual GoA process to normalize INDEC

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¶5. (SBU) National statistics agency INDEC announced November 12 that the October CPI increased 0.8% m-o-m, higher than the 0.6-0.7% m-o-m most private analysts expected, but still well below private forecasts of 1.0-1.2% m-o-m inflation. Inflationary pressures in October were quite widespread, with the highest increases in the prices of: education (1.4%), other goods and services (1.3%),

clothing (1.3%), and equipment and house maintenance (1.1%). Lowest price increases were in health, transportation, and communications, both of which increased 0.3%. According to INDEC, the accumulated CPI increase for the first ten months of the year was 5.8%, compared to private estimates of more than twice that level (about 13-15%, well entrenched in double digits). According to some analysts, INDEC's higher than expected inflation numbers may indicate that the GoA will continue to gradually improve the accuracy of its reporting.

The outlook for inflation appears to be negative, accelerating to 15%-20% in the short-term from current level (of 13-15%) based on the following factors: a) recovery of real activity and domestic demand (activity already touched bottom sometime during the third quarter of 2009 and is already showing a mild recovery); b) the favorable external environment (higher commodity prices) and the normalization of agriculture production after the 2009 drought; c) the lagging effect of a peso depreciation; d) the expected dismantling (at least partially) of the subsidies web; e) unanchored inflation expectations; f) continued wage pressures from unions; g) expansive fiscal and monetary policies and h) political uncertainty ahead of the 2011 elections.

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Consumer Confidence up

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¶6. (SBU) The consumer confidence index, measured by Torcuato Di Tella University, increased 3.7% m-o-m in November. All three index components increased: 1) consumer willingness to purchase durable goods and real estate (5.8% m-o-m); 2) improvement in personal situations (3.5% m-o-m); and 3) consumer sentiment toward the macroeconomic environment (2.8% m-o-m). The index increased 9.3% in the first eleven months of 2009. However, the index is 34% below its maximum level, which was reached in January 2007. The index is based on surveys of individuals and consumers' willingness to purchase durable goods, houses and cars.

Also, the Gallup-Universidad Cat????lica Argentina (UCA) index tracking consumers' expectations about the economy rose to 84 in October from 79 in September. The headline index has remained in the 76 to 86 range for the past twelve months, well below the highs seen between 2006 and the early 2008, reaching 120 in late 2007. In October, all sub-indices increased, with the sub-index on consumers' perceptions about the current economic situation rising the most, up to 88 from 82 in September, which may be related to the improvement in consumers' perceptions about employment. The Gallup-UCA survey showed a decrease in the share of consumers perceiving that there are few job openings (down from 68% in September to 63% in October) while the share of consumers who think that there will be fewer jobs over the next six months declined from 42% in September to 38% in October.
MARTINEZ